

**IN THE MATTER OF THE APPLICATION REGARDING CONVERSION
OF PREMIERA BLUE CROSS AND ITS AFFILIATES**

Washington State Insurance Commissioner's Docket # G02-45

PRE-FILED DIRECT TESTIMONY OF:

John Gollhofer, M.D.

March 31, 2004

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Introduction

Q. Please state your name, title, employer and business address.

A. My name is John Gollhofer, M.D. I am an obstetrician/gynecologist at the Rockwood Clinic, 105 West 8th Street, Suite 7070, in Spokane, Washington.

Q. What is your relationship to Premera Blue Cross?

A. I am independent director of the PREMERA and Premera Blue Cross Boards of Directors. I have served on the PREMERA and Premera Blue Cross Boards of Directors since May 2002. I am currently chair of the Quality Committee of the PREMERA Board.

Purpose and Conclusions of Testimony

Q. What is the purpose of your testimony?

A. I will describe the work of the Premera Board's Quality Committee; the company's care facilitation and disease management initiatives; and discuss the impact of the proposed conversion on Premera's Quality Program. I will also offer my perspective as a physician on provider reimbursement and rural healthcare.

Q. What are the primary conclusions to be drawn from your testimony?

A. First, the Quality Committee and Premera are thoroughly committed to the health and satisfaction of the Company's members. Second, Premera's quality initiatives have a profound positive impact on the lives of its members. These programs are among the most progressive and effective that I have seen from any health insurer. The proposed conversion will help provide funding for continued expansion of these initiatives to the benefit of our current and future members. Finally, from my experience as a practicing physician for 26 years, and as a Board member, I believe Premera is committed to working collaboratively with the physician and provider community. I further believe

1 that the proposed conversion will have no adverse impact on physician reimbursement or
2 rural healthcare.

3 **Credentials**

4 **Q. Please summarize your educational background.**

5 A. I graduated from Yale University with a Bachelor of Science degree in molecular
6 biology and biophysics in 1968. I graduated with a doctor of medicine degree from the
7 Washington University School of Medicine in St. Louis, Missouri in 1972. I completed
8 an internship in obstetrics/gynecology at Barnes Hospital in St. Louis, Missouri in 1973,
9 and a residency in obstetrics/gynecology at St. Joseph's Hospital in Phoenix, Arizona in
10 1978.

11 **Q. Please summarize your professional career.**

12 A. I worked as a physician with the National Health Service Corp in Brookings,
13 Oregon from 1973-75, and the Quincy Medical Group in Quincy, Illinois from 1978-90.
14 I have worked at the Rockwood Clinic in Spokane, Washington from 1990 to the present,
15 specializing in obstetrics and gynecology.

16 **Q. Aside from your employer and Premera, what other organizations are you or
have you recently been active in?**

17 A. I am a past president of the Washington State Medical Association (2000) and the
18 Spokane County Medical Society (1995). I have served on boards of directors of various
19 medical group practices, community service organizations, and a general hospital.

20 **Impact of Conversion on Premera's Quality Program**

21 **Q. What is the purpose of the Quality Committee of Premera's Board?**

22 A. The Quality Committee exists to ensure that the health and satisfaction of Premera
23 members improves continuously over time. The Committee oversees Premera's Quality
24

1 Program and holds management accountable for meeting the program's goals and
2 objectives.

3 **Q. As Chair of the Quality Committee, what are your responsibilities?**

4 A. I work with Premera management and the Quality Committee members to
5 develop an annual plan for the Committee's activities. I approve meeting agendas and
6 chair the meetings, which are held quarterly. I keep the full Board updated on key
7 decisions and progress of the Committee.

8 **Q. Who is on the Quality Committee?**

9 A. Our Committee members bring a wealth of medical and other experience to the
10 oversight of the Quality Program. Three out of four Committee members are physicians.
11 In addition to myself, the members are: Thomas A. Waltz, M.D., the head of the
12 Division of Neurosurgery at Scripps Clinic in La Jolla, California; John Thomas Rulon,
13 M.D., a consultant to the Spokane Ear, Nose and Throat Clinic, and a consulting forensic
14 otologist; and John Leinen, the former Executive Secretary-Treasurer of the Spokane
15 Labor Council AFL-CIO and former Managing Editor of *Labor World* publishing.

16 **Q. Please summarize the type of programs that fall under the Quality
Committee's area of responsibility.**

17 A. There are several programs and initiatives that fall under Premera's Quality
18 Program, which the Quality Committee oversees. They include disease prevention and
19 health education programs for members; chronic and acute care programs; utilization and
20 case management; medical policy development and monitoring; physician credentialing
21 and peer review; incorporation of quality performance measures into the physician and
22 hospital contracting process; assessment and improvement of the quality of service to
23 members and healthcare providers; and patient safety improvement activities.
24

1 In 2003, our Quality Program focused on several initiatives. One of our main
2 initiatives was to improve our programs for members with chronic conditions. This past
3 year, we completed the rollout of our cardiac and diabetes disease management programs
4 in Washington, Oregon and Alaska. In our well-established oncology program, member
5 satisfaction reached over 95%. And in our end-stage renal disease management program,
6 we implemented an early identification program to ensure that members receive timely
7 treatment.

8 We also have an initiative to improve clinical quality, focusing on such areas as
9 eye exams for diabetics, adult flu immunizations, adolescent immunizations, and better
10 treatment for depression. We've made considerable progress in all of these areas. For
11 example, diabetics are at risk for retinopathy, a disease that can ultimately cause
12 blindness if left untreated. In Washington, we have facilitated an increase in the
13 percentage of our diabetic members receiving eye exams, from 71% to 93% over the past
14 two years.

15 **Q. How would you characterize Premera's commitment to quality care for its**
16 **members?**

17 A. The Premera Board and management team are committed to facilitating quality
18 care for its members by working collaboratively with physicians, other health care
19 providers, and members. Premera's commitment is reflected in the mission statement,
20 which is "to provide peace of mind to our members about their healthcare coverage."
21 Premera's Quality Program is integral to that mission. Premera's Quality Program
22 makes a real, positive difference in the lives of members, and it has the potential to do a
23 great deal more. I am enthusiastic about being a part of this important effort to improve
24 the health of our members.

1 **Q. What impact, if any, do you believe Premera's proposed conversion will have**
2 **on the company's care facilitation, disease management and other healthcare**
3 **quality programs?**

4 A. As just described, we are putting the right programs in place, and focusing our
5 resources on members that need our help the most. However, there is a lot more we can
6 do to serve our members, particularly those with chronic illness. Many of our programs
7 are in the nascent stage, so we need to keep investing in order to provide the superior
8 service we are striving for. The proposed conversion will help provide the capital the
9 company needs to make those investments.

10 **Premera's Relationship with Contract Physicians**

11 **Q. You stated earlier that you are a practicing Obstetrician/Gynecologist at the**
12 **Rockwood Clinic in Spokane. Is that correct?**

13 A. Yes.

14 **Q. Does the Rockwood Clinic where you practice currently have a contract with**
15 **Premera?**

16 A. Yes.

17 **Q. How long has that contract been in place?**

18 A. To my knowledge, Rockwood Clinic has had a contract with Premera or with its
19 predecessor (Medical Services Corporation of Eastern Washington), since the clinic was
20 established in 1935.

21 **Q. Given your experience as a practicing physician at the Rockwood Clinic, how**
22 **would you characterize your dealings with Premera?**

23 A. I am not involved in contract negotiations with Premera, and I have no intimate
24 knowledge of the day-to-day administration of the contract. Having said that, I serve on
the Rockwood Clinic Operations Committee, so I am knowledgeable about how our staff
members perceive the various health insurers we do business with. Based on that

1 experience, I believe that our relationship with Premera has always been positive,
2 particularly compared to numerous other health plans we do business with. The billing
3 process with other plans can be onerous. We have to resubmit and haggle over an unduly
4 large portion of our claims, many of which are ultimately denied. Premera, on the other
5 hand, works hard to meet its commitments and solve problems to the mutual benefit of
6 both parties.

7 Most physicians agree that Premera is a good business partner, as evidenced by
8 the company's annual survey of physician satisfaction. In the most recent survey,
9 conducted on behalf of Premera by an independent firm, 96% of physicians rated
10 Premera "as good as" or "better than" other health plans they contract with. 75% of
11 physicians rated Premera "better than" other health plans they contract with, and overall
12 physician satisfaction was 7.7 out of 10 points.

13 **Impact of Proposed Conversion on Physician Reimbursement.**

14 **Q. Speaking from the perspective of a physician, and as the former President of**
15 **both the Washington State Medical Association and the Spokane County**
16 **Medical Society, what impact, if any, do you believe the proposed conversion**
17 **will have on physician reimbursement?**

18 A. I don't believe the conversion will have any adverse impact on physician
19 reimbursement. Physicians are paid based upon contract negotiations with Premera and
20 other insurers. The outcome of those negotiations has nothing to do with whether the
21 health plan is for-profit or non-profit.

22 Physicians routinely complain that they are not paid enough, but they also
23 complain that health insurance premium rates are too high. The reality is that if we want
24 to ease the pressure on premiums, as physicians we have to provide more cost-effective
care, just as insurers need to provide more efficient administration on the financing side.

1 When I was president of the Washington State Medical Association, it was
2 common—even expected—for physicians to criticize insurance companies. Premera,
3 alone among its peers, approached me as head of the Association to learn how they could
4 address the concerns of physicians and foster a more productive relationship. My time on
5 the Premera Board has confirmed that the Board members remain committed to that
6 objective. I also have a high regard for my fellow Directors and management. These are
7 highly ethical people who walk the talk – they do the right thing every chance they get.

8 Physicians need a strong insurance market as much as insurers need physicians.
9 From time to time, groups of physicians have banded together to create their own
10 financing systems, but such efforts have generally failed. Those of us who lived through
11 the collapse of Unified Physicians of Washington (UPW), the receivership of the Kitsap
12 Physician Service, and the bankruptcy of Spokane Health Link understand how important
13 it is to have financially strong insurance companies. UPW, for example, was an
14 insurance plan set up by physicians to escape the perceived abuses of managed care
15 plans. It was capitalized entirely by physicians throughout Washington, many of whom
16 invested money out of their personal retirement funds. Unfortunately, running an
17 insurance company was a whole lot tougher than the physicians thought. Within two
18 years, UPW was unable to pay claims and filed for bankruptcy. After living through the
19 complexity of UPW's sale, and its impact on the health care delivery system, I can see
20 the wisdom of assuring adequate sources of capital. In short, insurance companies
21 provide critical expertise and serve a fundamental function in the healthcare financing
22 system. We need solid companies like Premera that are committed to the health of their
23 members and can be relied upon to keep the finance side of the system running smoothly.
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1 Securing access to equity capital will help Premera meet those objectives. I believe the
2 proposed conversion will help strengthen Premera in ways that will be positive for the
3 company, its contract physicians and other providers, and its members.

4 **Impact of Proposed Conversion on Rural Healthcare**

5 **Q. Speaking from the perspective of a physician and someone who is active in**
6 **the communities of Eastern Washington, many of which are rural, what**
7 **impact, if any, do you believe the proposed conversion will have on rural**
8 **healthcare?**

9 A. There was a time when we had a robust private insurance market in Eastern
10 Washington, but owing to a down cycle in the economy and a tough regulatory
11 environment, a number of insurers pulled out. I have to give Premera credit for
12 remaining committed to the Eastern Washington market, even in places as rural as Omak
13 and Walla Walla. Given my experience with Premera's leadership, there is no reason to
14 believe the company's status as non-profit or for-profit will make any difference with
15 respect to where the company chooses to serve its members. In fact, the geographic
16 breadth of Premera's network, including the rural areas, is viewed by the company as an
17 important competitive advantage.

18 **Q. Does this conclude your testimony?**

19 A. Yes, it does.
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VERIFICATION

I, JOHN GOLLHOFER, M.D., declare under penalty of perjury of the laws of the State of Washington that the foregoing answers are true and correct.

Dated this ____ day of March, 2004, at Spokane, Washington.

/s/
JOHN GOLLHOFER, M.D.